

Mobile App-Only Dilemma at Paradise Travels

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Abstract

India is the second largest telecom market globally with over 937 million wireless subscribers (active wireless subscriber base of over 824 million). Smartphone penetration is expected to rise to around 13.4% in 2015, up from about 10% in 2014. India is ranked 3rd in the number of apps downloads globally, and the rapid adoption of mobile internet expects that apps downloaded per smartphone will move closer to the global average. The case has its theme in how India is gradually transitioning from a mobile first to a mobile only country. A decade old Travel agency – Paradise Travels has some tough decisions to make to reach its ambitious goals. The case deals with the dilemma of the directors and their plans for growth in the smartphone and mobile application scenario.

Keywords: App-only, Mobile Application, Smartphones

1. Introduction

In early July 2005, four budding entrepreneurs, all graduated from top B-schools, with a passion for business and travel decided to join hands together to form Paradise Travels. Their diverse backgrounds and expertise made them a winning combination to run their state-of-art travel agency. Their passion for travel and contemporary business acumen made Paradise Travels a great business success story. Paradise Travels had fought many a battles to take it to the top 10 travel agencies in India. The agency had won two prestigious awards and was a fairly well-known name among those who preferred hassle free travel arrangements and holidays.

Today, on 6th of July 2015, one of the directors, Arun, excitedly dashed off an email requesting three other directors sitting in the same corporate office to meet in the board room in the late afternoon. On arriving, the directors noticed four neatly prepared files awaiting them. The projector was on, displaying some statistics and graphs. Tarun started browsing through the data.

Janhvi: Hi Tarun and Umang! I was expecting a discussion on our journey at Paradise and celebrations for completing 10 years at Paradise Travels! It has been such a wonderful ride for all of us.

Tarun: Looks like Arun has a different agenda! By the way where is he?

Just then an enthusiastic Arun walks in.

Arn: Hi all! I am so glad you all are here. I have an idea to share with you! It is as exciting as completing 10 years together at Paradise Travels!

Arun: Friends, as you all are aware, today a big chunk of our online interactions are occurring on mobile devices. Let me quote few facts from different reports commenting on Technology, Media & Telecommunications, India Predictions 2015. The same are also included in the file.

- India is the second largest telecom market globally with over 937 million wireless subscribers (active wireless subscriber base of over 824 million)
- Smartphone penetration is expected to rise to around 13.4% in 2015, up from about 10% in 2014.
- India is ranked 3rd in the number of apps downloads globally, and the rapid adoption of mobile internet expects that apps downloaded per smartphone will move closer to the global average.
- About 9 billion apps will be downloaded in India in a year to come, more than 5 times the number of apps downloaded in 2012.
- In 2013, an average Indian smartphone downloaded 17 apps. App downloads are expected to be increased six folds.

- In terms of app usage, Indians on average spend 3 hours and 18 minutes on their smartphones and one-third of this time is spent using apps.
- More than half of the app users in India are aged between 18 and 24 years and a further 29% between 25 and 35.

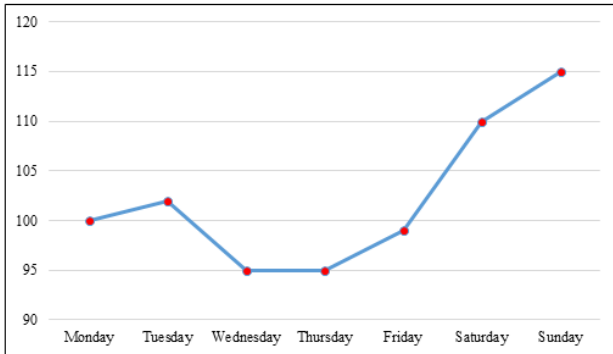


Figure 1. Free downloads of 'Paradise Travel Mobile App'. June 2015, Average Per Weekday (Indexed, Monday = 100)

Tarun: Yes! The numbers are true and I do see a pattern here. But, Arun, What do you want to put forward?

Arun: I am positively exploring an idea of going for a mobile 'App-only' model for our business replacing the existing business model which is a combination of website and physical interaction centers!! It seems to be a prudent move! What are your views? Sumintra.com has done it. Applekart is also positive about it.

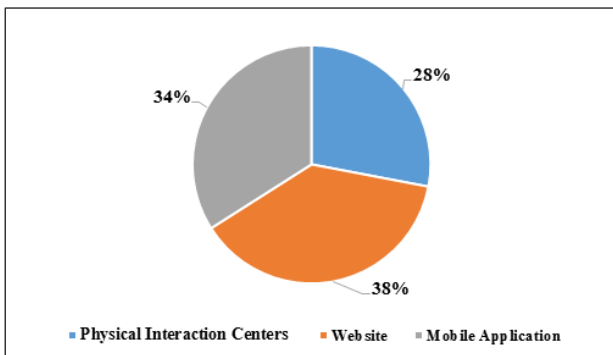


Figure 2. Booking channels for Paradise travels' existing customer base. July 2014 to June 2015

Janhvi: But Arun, along with fully functional website, we also have a mobile app for Paradise Travels.

Arun: The trends indicate that we too have a similar pattern of more customers using a mobile application. Tarun, you are an analytical genius, you surely cannot

overlook the data pointing towards the exponential growth in the business through our mobile application.

Tarun: Yes! The numbers clearly show we are heading for growth through our mobile application.

Umang: Agree too! However there is an upward (YoY) trend in the business generated through our website too! And don't forget, our customers are coming from every strata and state of India. Did you see the sales figures from our Kerala, Gujarat and West Bengal centers? I think these centers are succeeding because of the personal touch that our customer service team adds.

Arun: We have a recent success story of Sumintra.com, who have claimed that in one year 90% of traffic and 70% of sales is coming from the mobile app. Think of this scenario friends, once the user has the app installed on the phone, they are more likely to go and book directly through app. Anyhow we have the database of our customers. The customers can be easily targeted / re-targeted through app. It appears to be a visionary approach for the company.

Umang: Sales from the mobile app might have grown from nearly zero to 70% in the space of last 3 to 4 years but that doesn't necessarily mean that desktop traffic has declined. So while mobile traffic might be growing at a great clip, the desktop traffic has also remained stable, rather grown at some rate.

Arun: I think, it is the right time to explore the growing opportunity in the mobile application market. We all know that being among the top 10 is very prestigious. We are #8, and that hurts! It is time to take Travel Paradise to #4 or #3 in the next 2 years.

Janhvi: I do not know whether "App Only" is that step, Arun. I will not say it is a risky step but if we go for it then it will be a bold step. And if it works, it can set the company up on a completely different trajectory from a competitive perspective.

Umang: I am on the same page here Janhvi! I want ours to be one of the top travel agencies. That's exactly why I am apprehensive about this bold idea. Given the data network infrastructure (2G/3G) India has, it is definite that a consumer will have a tough time using the app across India. This would limit our customer base to only cities having good network coverage.

Arun: India is moving from a mobile-first country to a mobile-only one! "Apps" are becoming increasingly ubiquitous in our daily life. In 2010, smartphones outsold personal computers, which caused tech analysts to shift

their attention to the handheld platform. Evidence also suggests that these devices are becoming more and more important in people's lives.

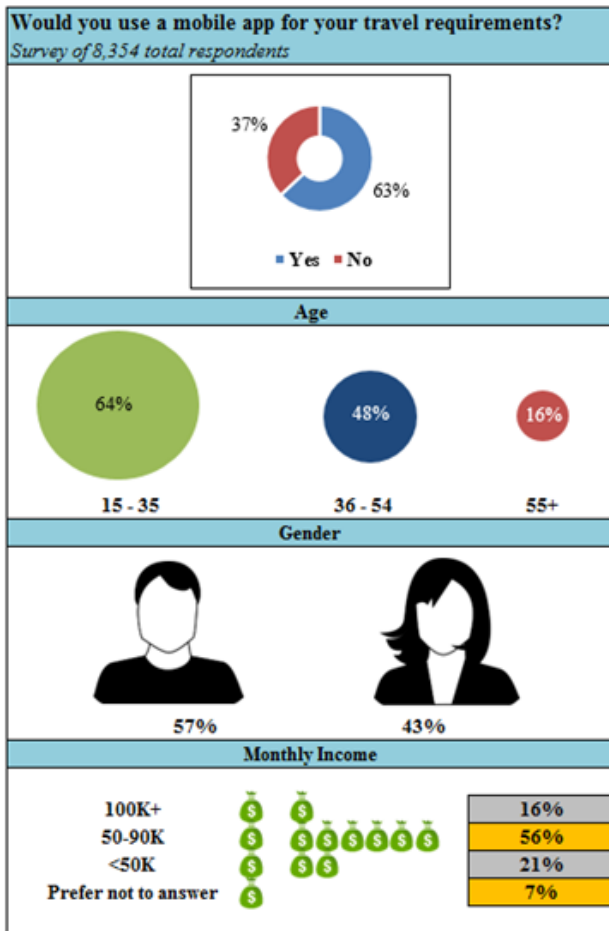


Figure 3. Relevant prior survey findings for Paradise Travels (December 2014).

Tarun: To add to this, e-commerce companies are routinely offering users an incentive to shop via mobile app rather than desktops through app-only offers and additional discounts. Here I can say that the e-com companies are actively shaping the demographics and skewing it towards mobiles. There is a good chance that this shift is not altogether an organic one driven by customer demand but one that is engineered by the vendors to fit their preferred narratives.

Arun: There may be some truth in this but mobile knows a lot more about you than your desktop. Everything from your location to your social circle to your waking and other habits & preferences. Push notifications nudge the user to open the app. Number of additional features and scenarios where a mobile app can provide an

enhanced experience to the customer. E.g. leveraging the camera and sensors to actually help the user. Leveraging communication capabilities of the mobile to provide a one-click contact feature where one could have a video-chat with an expert who can help in decision making.

Janhvi: Setting up profiles and giving your details and preferences explicitly are available on desktop too. Other features like managing orders and tracking your shopping history are available on desktop too.

Umang: Exactly! Personalized experiences can be possible on a desktop too. An app only model may work for companies who operate only in one category (e.g. Sumintra - vertical fashion) where impulse buying is the order of the day. Here notifications can be fairly powerful to drive the purchase behavior and the lack of price-comparison options is not a deal breaker. Single category companies can offer discounts and still earn the customer's business.

Janhvi: It's easy to compare prices on the web. On the app, customers tend not to. It's not that they can't, but it is less convenient to compare prices. Behavioural economics suggests that small triggers can significantly change customer decisions. It's reasonable to assume that a significant number of customers, while using the app, will likely not compare prices, and buy at a cost we dictate. This will take some pricing pressure away.

Tarun: It's unlikely to work in the long term. The app makes comparing prices less convenient, but doesn't hide the price information forever. Taking liberty with prices could backfire.

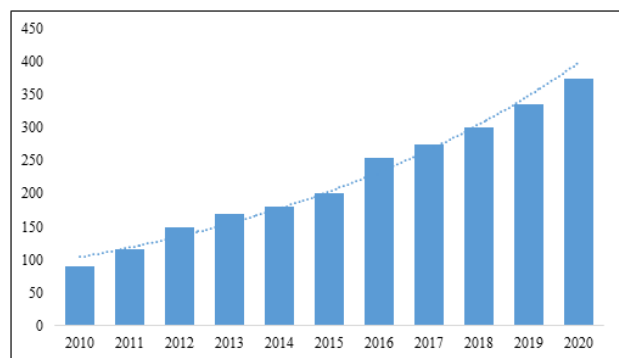


Figure 4. Global forecast of installations of travel mobile apps. In Million Units

Arun: My simple logic is since a mobile device follows users everywhere, it's good to encourage use of the app.

Umang: Friends, that explains why it's good to have

Table 1. Paradise travels - centerwise revenue generation - Oct '14 to June '15 (Rs. Crore)

	Guj	Ker	Kar	Mah	UP	Del	Pun	WB
October '14	20.25	15.43	5.79	8.68	11.57	14.47	12.54	7.72
November '14	22.44	17.10	6.41	9.62	12.82	16.03	13.89	8.55
December '14	23.59	17.97	6.74	10.11	13.48	16.85	14.60	8.99
January '15	24.85	18.94	7.10	10.65	14.20	17.75	15.39	9.47
February '15	26.24	19.99	7.50	11.24	14.99	18.74	16.24	9.99
March '15	27.50	20.95	7.86	11.79	15.72	19.64	17.02	10.48
April '15	28.77	21.92	8.22	12.33	16.44	20.55	17.81	10.96
May '15	29.92	22.79	8.55	12.82	17.10	21.37	18.52	11.40
June '15	33.08	25.21	9.45	14.18	18.90	23.63	20.48	12.60

an app, but it doesn't explain why there should be an app-only model. Purchases happen on the web too. Why force a customers to switch screens and waste an opportunity?

Arun: The mobile phone could open up new ways to let customers experience a product. The mobile phone is not just a delivery channel, it can be your advisor, irrespective of where you are, and at what time. An app can provide a superior, personalized experience to its customers. The mobile phone has already become one of the most intimate devices for people and – setting the privacy and security issues aside for the moment – is capable of providing highly contextual and relevant information/service.

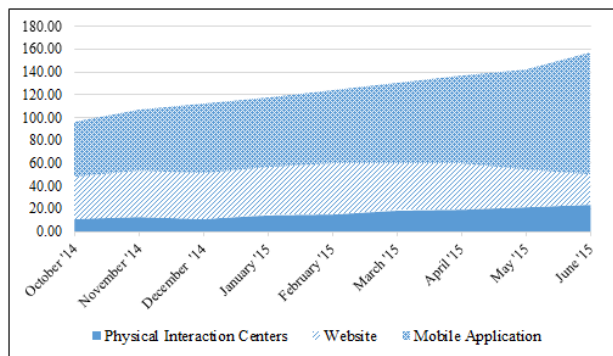


Figure 5. Paradise Travels - Revenue generated through different booking channels. Data as on 30th June 2015


Janhvi: While it's true that the web cannot match the mobile experience, it's not as if users expect both to be exactly the same. Google Maps on the mobile phone has more features than its web app, and yet, both have a place. Again, this doesn't explain why an app alone is superior to having a website and an app together. By restricting the access to just mobile apps may reduce sales. It is a risky

proposition. We may end up losing customers!

Tarun: I have a counter view Janhvi! If I see the mobile phone and web as merely two different channels, but as two different businesses the biggest cost is not losing a few customers, but missing out an entire line of business.

Arun: This is what I am trying to say. This could be our one big change to beat the competition. With reduced costs, we can be far more competitive. Currently, operating issues and problems are taking a lot of our time giving us little time for strategic planning.

Table 2. Paradise travels-center specific data

	Employees	Investment (Rs. Crore)
		
Gujarat	93	16.7
Kerala	86	13.6
Karnataka	121	24.2
Maharashtra	134	21.3
Uttar Pradesh	172	16.7
Delhi	205	25
Punjab	135	14.9
West Bengal	73	16.2

Tarun: The strategy to go app only would reduce the overall operating spend in the long run. Of course, maintaining two different versions for the mobile and desktop would mean additional costs. And yes, with an app-only model we can save on salaries to a large employee base. Imagine the savings if we do not have physical contact centers. Minimal rents, trifling salaries, nominal overheads and release of capital investment.

Janhvi: But Tarun, our employees are our biggest assets. The rents and salaries to maintain our physical contact centers have been a cause for concern. However,

there will be painful HR implications if we have to consider the app-only model.

Umang: I also agree that a lot of our time is spent on activities that are not generating revenue. But I still doubt that this ‘App only’ approach will be our edge to beat competition.

Arun: As quoted in a recent research in the Economic Times, in April 2014, transactions worth Rs. 18869 crore were made through mobile phones as compared to Rs. 3,260 crore in April 2014, according the RBI. The future looks full of promise, with India’s smartphone market growing at the fastest pace in all of Asia.

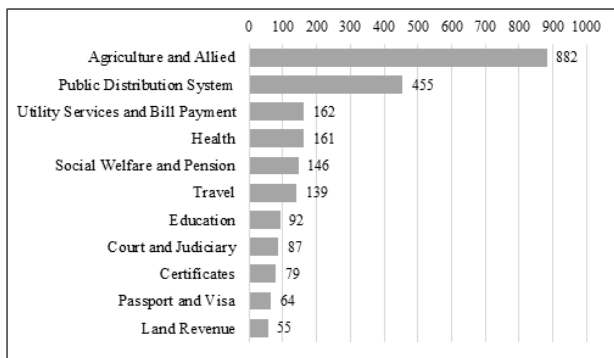


Figure 6. Services with e-transactions. July 2014 to June 2015, in Million Units

Tarun: Yes, I recollect reading in the same research that India is among the top 5 markets for app downloads. Also India has 160 million smartphone users and it is expected this number would grow at a compounded annual rate of 23% till 2017, according to the survey.

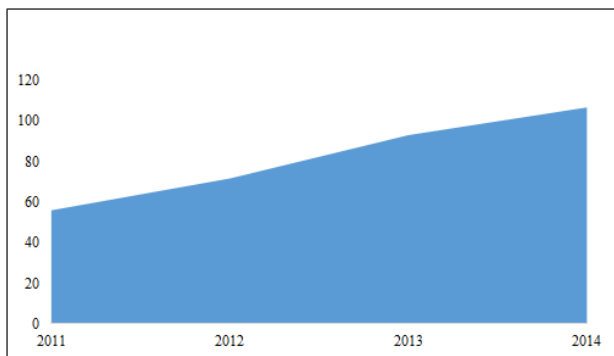


Figure 7. Paradise Travels-revenue generated Yo Y (in Rs. Crore). Combination of revenue from PICs, website and mobile application

Umang: Tarun, I fear that in the coming years practices such as Net neutrality may not gain the kind of support that we saw recently. An end to net neutrality may become a threat to these Apps only model. Not only will market place activities like branding, consumer communication and consumer experience be impacted, even essential activities like consumer service and support will be affected.

Arun: The chart on page 3 of my report very emphatically shows that ourbookings through mobile app downloads surpass the revenue generated from the website and from our physical centres. It should leave no doubt in our minds that going the app only way is a prudent way. Also imagine the first mover’s benefits that Paradise Travels shall reap. The first and only travel agency to go the App only way! This is music to my ears!

Tarun: The increasing speed and reach of mobile networks and the growing competence of mobile devices are encouraging app developers to innovate and help integrate the products into the daily lives. Going the app only way may be a decision that shall not only propel our agency growth and but help us tap new market segments.

Arun: Yes Tarun! The app development is seeing a boom in the rural Indian market. Fueled by low-priced smartphones, apps are being developed to cater to this huge potential rural market. Currently apps are helping farmers remotely control motors, teach new languages and even narrate bedtime stories to children. I am sure a customized version of our travel agency mobile app will help us tap this relatively untapped market.

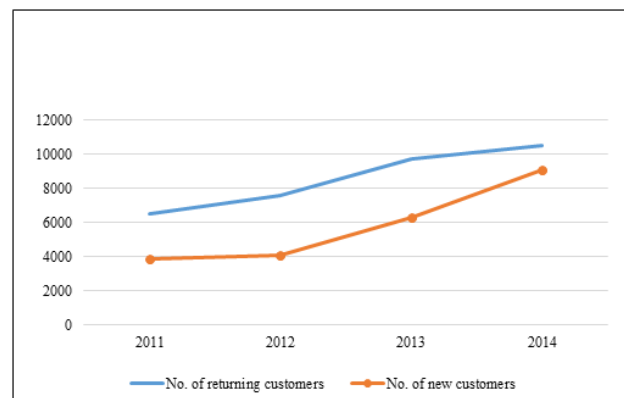


Figure 8. Paradise Travels-customer trends

Umang: Even as India is on its way to becoming an app-first economy, it has been ranked second among app-fraud countries! I would like to tread with caution on this decision of app only model.

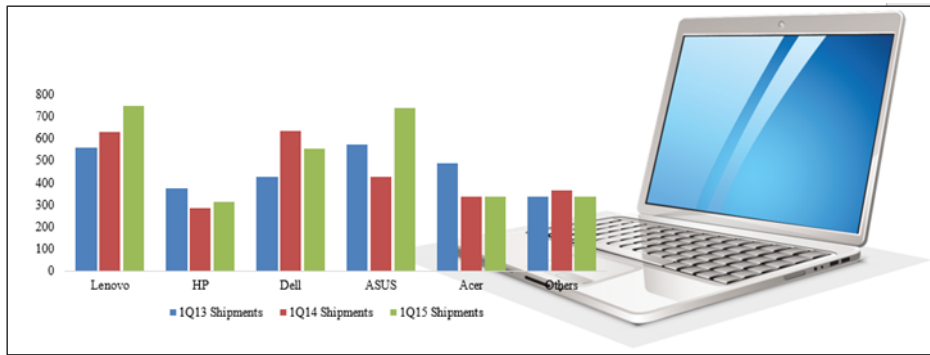


Figure 9. Nationwide PC vendor unit shipment for Quarter 1 ('000 units)
Data included desk-based PCs, notebook PCs, Chromebooks and Tablets

Tarun: Everyone is competing on the same dimensions and striving towards the same things – cheaper price, larger discounts and louder marketing spends. We need a fresh competitive advantage.

Janhvi: As the number of users accessing websites from their mobile phones exceeded those who did so from personal computer, why are we not considering up gradation of the mobile version of our own website to provide faster loading times, and have optimized user interfaces and other features adding to the functionality of mobile browsers? Many companies and other website owners are doing it.

Table 3. Profit and loss account for the year ended March 2015

Head	Rs. Crore
Revenues	
Sale of services	99.97
Other	30.89
Total revenues	130.86
Cost and expenses	
Amortization of website development costs	4.18
Mobile application development costs	11.70
Salaries and employee benefits	50.77
Depreciation of fixed assets	8.63
Other operating expenses	26.68
Total cost and expenses	101.96
Profit before income tax	28.90
Income tax	9.18
Profit after income tax	19.73
Minority interests	0.45
Net profit for the financial year	19.28

Arun: Mobile App is much faster than browsing the mobile web. It takes a second to launch a Mobile App. It can take up to several minutes for a mobile website to load in an area with bad reception. Mobile app can function offline, where web sites don't. Apps enable push notifications for direct contact with customers which web sites don't.

Janhvi: But then a mobile phone has limited amount of storage and size of the screen compared to computer, which may limit the use of apps. Have we given a thought to customer engagement rates, bounce rates, user repeat rates and user (customer) satisfaction?

Umang: Mobile apps have disadvantage of information overload, privacy and security. We also have to consider cost of developing and marketing the app. There may be issues of platform integration or else loss of flexibility.

Arun: On the other hand Umang, mobile app will help us build relationships, develop customer loyalty and increase visibility of Paradise Travels.

Tarun: We also need to consider some transactional issues such as information search by customer, enquiry, query handling leading to quotation and finally order bookings & status update. Can our mobile app also support transactions like currency and VISA?

Janhvi: I think professional app development considering location tracking, scheduling, auto reminding and accessories like calculators and calendars will address transactional issues.

Arun: Of course, we shall have to look into all these aspects friends! Don't you think it is an idea worth pursuing?

Umang shrugged his shoulders and started reading the

various reports. Arun asked for the HR manager to send him the latest payroll calculation document. Tarun was staring ahead at the figures on the screen which suddenly made no meaning at all. Is it really a game of numbers? Janhvi was sure that she wanted Paradise Travels to be among the top 3 travel agencies in the country. Hopefully very soon.

It was clear to each one of the directors that there would be implications to go for the app only model. These implications – whether negative or positive need to be studied given the current scenario. Big decisions call for serious strategic thinking and execution. The dilemma needs to be addressed with a careful analysis of the facts and the changing times.